

Message Text

CONFIDENTIAL

PAGE 01 STATE 123550 TOSEC 130030

71

ORIGIN EUR-12

INFO OCT-01 ISO-00 EB-07 SS-15 SSO-00 CCO-00 /035 R

DRAFTED BY EUR/CAN:JHROUSE,JR.;EB/ORF/FSE:WRILEY:CLJ

APPROVED BY EUR-RDVINE

S/S: RWOODS

EB/ORF/FSE:WRILEY

EB:JLKATZ

----- 094139

O 200021Z MAY 76 ZFF4

FM SECSTATE WASHDC

TO USDEL SECRETARY IMMEDIATE

C O N F I D E N T I A L STATE 123550 TOSEC 130030

E.O. 11652: GDS

TAGS: ENRG, CA

SUBJECT: REVISION OF NATO BILATERAL BRIEFING PAPER FOR
CANADA: GAS EXPORT PRICES

FOLLOWING MATERIAL SHOULD BE ADDED TO SECRETARY'S BRIEFING
PAPER FOR BILATERAL WITH CANADIAN MINISTER OF EXTERNAL
AFFAIRS MACEACHEN:

1. CHECKLIST: EXPRESS SATISFACTION WITH THE CANADIAN
GOVERNMENT'S DECISION TO DELAY ANNOUNCEMENT OF NEW GAS
EXPORT PRICES PENDING CONSULTATION WITH U.S. EXPRESS THE
HOPE THAT MEANINGFUL CONSULTATIONS WILL HELP DEFUSE
POLITICALLY CHARGED ISSUE.

2. ISSUES/TALKING POINTS: CANADIAN NATURAL GAS PRICES.

BACKGROUND: APPROXIMATELY ONE TRILLION CUBIC FEET OF
NATURAL GAS (4.5 PERCENT OF TOTAL U.S. CONSUMPTION) IS
IMPORTED FROM CANADA ANNUALLY UNDER LONG-TERM CONTRACTS.
CONSUMPTION OF CANADIAN NATURAL GAS IS CONCENTRATED IN 12
STATES, PRINCIPALLY IN THE NORTHERN TIER OF BORDER STATES,
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 123550 TOSEC 130030

ALTHOUGH NORTHERN CALIFORNIA IS ALSO A LARGE MARKET.

THE AVERAGE EXPORT PRICE OF CANADIAN GAS HAS RISEN RAPIDLY IN THE PAST TWO YEARS FROM 58 CENTS PER THOUSAND CUBIC FEET (MCF) IN 1974 TO 1.60 DOLLARS ON NOVEMBER 1, 1975. THE NATIONAL ENERGY BOARD HAS RECOMMENDED TO THE CANADIAN GOVERNMENT THAT THE CURRENT PRICE OF 1.60 DOLLARS BE INCREASED AGAIN TO AN AVERAGE OF 1.98 DOLLARS PER MCF. THE FORM OF THE RECOMMENDED PRICE INCREASE WILL DIFFERENTIATE THE PRICES CHARGED FOR SPECIFIC U.S. MARKETS IN A RANGE FROM 1.80 DOLLARS FOR VERMONT--WHICH IS 100 PERCENT DEPENDENT--TO 2.10 DOLLARS FOR NORTHERN CALIFORNIA, THE LARGEST CONSUMER OF CANADIAN GAS.

CANADIAN DOMESTIC PRICES ARE MUCH LOWER THAN THOSE CURRENTLY CHARGED THE UNITED STATES. THE BASE PRICE IN CANADA IS 1.25 DOLLARS PER MCF AT THE TORONTO CITY GATE. THE CANADIANS INTEND TO INCREASE THE DOMESTIC PRICE TO 1.40 ON JULY 1 AND 1.50 ON JANUARY 1; HOWEVER THIS WILL ACTUALLY WIDEN THE DISCRIMINATION BETWEEN DOMESTIC PRICES AND THE PROPOSED EXPORT PRICES.

THE NEB'S JUSTIFICATION FOR THE EARLIER PRICE INCREASES WAS THE EQUALIZATION OF THE VALUE OF CANADIAN GAS WITH THE COST OF ALTERNATIVE FUELS IN THE U.S. NEB NOW RECOMMENDS THAT CANADIAN EXPORT PRICES BE INCREASED TO WORLD OIL PRICE LEVELS. THE NEB RECOMMENDATIONS LEAVE OPEN THE POSSIBILITY OF EVEN FURTHER PRICE INCREASES IN THE FUTURE.

WHEN WE WERE INFORMED A GOC PRICE ANNOUNCEMENT WAS IMMINENT, WE STRONGLY URGED THAT THIS MOVE BE DELAYED UNTIL U.S. VIEWS COULD BE PRESENTED AND CONSIDERED. ON MAY 18 THE GOC ANNOUNCED INCREASED DOMESTIC PRICES FOR OIL AND GAS, BUT SAID THAT ANNOUNCEMENT OF A PRICE INCREASE FOR EXPORT GAS WILL BE DELAYED TO ALLOW TIME FOR FURTHER STUDY OF THE NEB'S RECOMMENDATION AND FOR CONSULTATION WITH THE U.S.

3. YOUR TALKING POINTS:

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 123550 TOSEC 130030

-- WE ARE SERIOUSLY CONCERNED ABOUT CANADA'S PROPOSED GAS EXPORT PRICE INCREASES, AND WE WELCOME CANADA'S DECISION TO DELAY ANNOUNCEMENT OF EXPORT PRICE INCREASES PENDING CONSULTATION WITH US.

-- THE PROPOSED NEW PRICES WOULD NOT ONLY INCREASE THE EXISTING DISCRIMINATION IN THE PRICE SPREAD BETWEEN CANADIAN DOMESTIC PRICES AND EXPORT GAS PRICES, THEY ALSO

INTRODUCE DISCRIMINATION IN THE PRICE AMONG THE VARIOUS

AMERICAN CONSUMERS OF CANADIAN GAS AS WELL, PLACING THE HIGHEST PRICE ON CONSUMERS IN CALIFORNIA.

-- COMING AT THIS TIME, THE NEW PRICE INCREASES ARE LIKELY TO CREATE A VERY STRONG NEGATIVE POLITICAL REACTION, ESPECIALLY IN THE AREAS ADVERSELY AFFECTED. THIS REACTION COULD SERIOUSLY COMPLICATE OUR EFFORTS TO IMPROVE COOPERATION IN THE ENERGY FIELD AND IN OTHER AREAS.

-- WE VERY MUCH APPRECIATE THE DELAY IN ANNOUNCEMENT WHICH WILL PERMIT FULLER CONSULTATIONS. IT IS ESPECIALLY IMPORTANT THAT WE HAVE AN OPPORTUNITY TO REVIEW THE PROPOSED PRICE DISPARITIES IN THE U.S. AND THE QUESTION OF THE TIMING OF ANY INCREASES, AND THAT OUR VIEWS BE ADEQUATELY TAKEN INTO ACCOUNT IN ANY CANADIAN DECISION.

-- WE BOTH AGREE THAT MEANINGFUL CONSULTATION IN ADVANCE OF DECISIONS IS THE BEST MECHANISM FOR MANAGING U.S.-CANADIAN RELATIONS. I HOPE YOU CAN HELP IN SEEING THE PROCESS WORK IN THE PRESENT CASE. ROBINSON

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TOSEC, EXPORTS, NATURAL GAS, DIPLOMATIC DISCUSSIONS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 20 MAY 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MartinML
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE123550
Document Source: CORE
Document Unique ID: 00
Drafter: JHROUSE, JR.; EB/ORF/FSE:WRILEY:CLJ
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760194-0701
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760532/aaaabbdv.tel
Line Count: 138
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MartinML
Review Comment: n/a
Review Content Flags:
Review Date: 13 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13 APR 2004 by BoyleJA>; APPROVED <28 JUL 2004 by MartinML>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REVISION OF NATO BILATERAL BRIEFING PAPER FOR CANADA: GAS EXPORT PRICES
TAGS: ENRG, CA, US, NATO, (KISSINGER, HENRY A), (MACEACHEN, ALLAN)
To: SECRETARY
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006